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NCUA Press Release

NCUA Board Approves 2005 Budget

***Budget decreased, \$9 million returned to federal credit unions,
and overhead transfer rate is lowered***

November 18, 2004, Alexandria, Va. -- The National Credit Union Administration (NCUA) Board today adopted a 2005 budget of \$148 million, which is a 1.29 percent decrease from the 2004 budget. The Board also voted to refund \$9 million to federal credit unions from excess cash reserves and to reduce the overhead transfer rate to 57 percent.

“This budget clearly demonstrates our strong commitment to the wise use of agency resources. This is a budget that reflects that funds placed with the NCUA are prudently utilized for an agency focusing on its foremost mission of safety and soundness for America’s credit unions,” said NCUA Chairman JoAnn Johnson. “I am extremely pleased we were able to decrease the budget, return funds to credit unions, reduce the operating fee, and lower the overhead transfer rate. The 2005 budget is well balanced for all stakeholders.”

Also, the NCUA Board approved a departmental reorganization for an initiative on small credit unions. “Our 2005 budget sends a strong message: NCUA recognizes the importance of small credit unions to their members, their communities, and the entire credit union community,” affirmed NCUA Board Member Debbie Matz. “Strengthening small credit unions and stemming their demise is now an agency-wide goal, starting with our Central Office. This Small Credit Union Initiative will assist those credit unions which are at the forefront in serving people of modest means and in doing so will help to preserve the tax exemption for all credit unions. Today we begin a coordinated effort to help more small credit unions survive and thrive. This in turn will help protect the safety and soundness of the entire credit union system.”

“My goal is to have the small credit union initiative performance-driven, results-oriented, and that the agency maintains its wise use of the targeted resources,” said Chairman Johnson. “For a long time, NCUA has maintained a keen focus on the growth and sustainability of small credit unions; therefore, I do look forward to monitoring the progress of this initiative so we may realize emerging credit unions are indeed succeeding in their mission to serve members from all walks of life.”

2005 Budget Reduction

The Board approved a final 2005 NCUA budget of \$147, 996,144, representing a nearly \$2 million or a 1.29 percent decrease from its 2004 budget of \$149.9 million. The NCUA budget is based on historical actual spending. Each office uses zero-based budget preparation -- beginning with zero and justifying each line item in its annual budget request -- based on strategic goals and the safety and soundness program.

Primary expenditures and material changes in the 2005 budget include:

- \$2.7 million increase for an average 4 percent pay adjustment;
- \$1.3 million for capital acquisitions primarily related to network, server and security;
- \$2.2 million decrease in administrative expenses;
- \$1.9 million savings as new employees replace higher grade retiring employees;
- \$673,000 savings in travel; and
- \$515,000 savings in rent, communications and utilities

Major components of the 2005 budget include-

<u>Category</u>	<u>2004 Budget</u>	<u>2005 Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Employee Pay	\$88,519,420	\$89,368,676	\$849,256	0.96%
Employee Benefits	22,631,933	23,093,685	461,752	2.04%
Travel	13,492,175	12,818,897	(673,278)	-4.99%
Rent, Communications & Utilities	4,445,363	3,930,100	(515,263)	-11.59%
Administrative	12,655,451	10,498,368	(2,157,083)	-17.04%
Contracted Services	8,183,250	8,286,418	103,168	1.26%
Total	\$149,927,592	\$147,996,144	(\$1,931,448)	-1.29%
Subtotal Payroll	111,151,353	112,462,361	1,311,008	1.18%
Subtotal Non-Payroll	38,776,239	35,533,783	(3,242,456)	-8.36%

At the budget briefing and public forum held October 12, 2004, NCUA discussed the Operating Fee, Overhead Transfer Rate, and decreasing the number of full time staff as the number of institutions decline. Since 2000, full time staff at NCUA has declined by 88 positions, down from 1,049 to 961. The 2005 budget includes a reduction of 2 full-time positions.

Operating Fee Refund

The NCUA Operating Fund currently has \$9 million in excess cash, due to lower than budgeted expenses, which will be distributed as a refund to federal credit unions at year end. The Board made the decision to return the excess cash rather than skew the rate scale adjustment with a significant decrease in 2005 followed by a significant increase in 2006. The operating fund is financed by an operating fee assessment adjusted annually based on year-end federal credit union assets.

The Board also decreased the operating fee scale for federal credit unions by 1.23 percent to meet 2005 Operating fee requirements, while 2005 Operating Fund fee scale asset dividing points increased by 6.25 to reflect estimated 2004 asset growth.

Overhead Transfer Rate

The NCUA Board lowered the overhead transfer rate from 59.8 to 57.0 percent for 2005 based on the calculation method adopted in 2003 which factors in the following:

- NCUA's examiner time survey and the value to NCUSIF of insurance-related work performed by state supervisory authorities;
- Cost of NCUA resources and programs with different allocation factors from the examination and supervision program;
- Distribution of insured shares between federal credit unions and federally insured state-chartered credit unions; and
- Operational costs charged directly to the NCUSIF.

The overhead transfer rate declined primarily because of the decline in the level of insurance-related work reported by examiners for the current survey period. The most recent Examiner Time Survey -- from June 2003 to June 2004 -- indicated examiners spent an average of 69.5 percent of their time on insurance-related procedures.

Offices Renamed

To enhance NCUA's small credit union program, the Office of Credit Union Development will be revamped and its name changed to the Office of Small Credit Union Initiatives (OSCUI). The staffing level will be increased by three new positions -- a supervisor and two trainer/analysts -- and the 15 economic development specialists currently managed by the regional offices will be reassignment to OSCUI.

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The Office of Strategic Program Support and Planning is changing its name to the Office of Capital Markets and Planning (OCMP) to more accurately reflect its purpose and functions. A new Division of Capital Markets will be located in OCMP in order to organize existing investment staff to achieve more effective operations.

The National Credit Union Administration is the independent federal agency that regulates, charters and supervises federal credit unions. NCUA, with the backing of the full faith and credit of the U.S. government, manages the National Credit Union Share Insurance Fund, insuring the deposits of more than 82 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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